

Message Text

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PRS-01 AID-05 FRB-03 USIA-06 TRSE-00 XMB-02 OPIC-03

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6287

INFO AMEMBASSY BERN

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DEPARTMENT PASS TREASURY, FRB AND LABOR

E.O. 11652: N/A

TAGS: UK, ECMN, EFIN, ELAB

SUBJECT: GOVERNMENT UNVEILS NEW INDUSTRIAL STRATEGY

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REFERENCE: LONDON A-841 OF OCTOBER 7, 1975

SUMMARY: CHAIRED BY THE PRIME MINISTER, THE COUNCIL OF THE NATIONAL ECONOMIC DEVELOPMENT ORGANIZATION (NEDO) ON NOVEMBER 5 DISCUSSED A MEDIUM-TERM STRATEGY FOR REVERSING THE EROSION IN KEY SECTORS OF BRITAIN'S INDUSTRIAL BASE. AN ACTION PROGRAM WAS ADOPTED. THE CONSTRUCTIVE ATTITUDE ADOPTED BY REPRESENTATIVES OF ORGANIZED LABOR AND INDUSTRY UNDERLINES THE ACCEPTANCE OF ALL CONCERNED OF THE NEED TO MOVE AWAY FROM TRADITIONAL RHETORIC AND ACTIVELY TO CONTRIBUTE TO THE RESOLUTION OF BRITAIN'S INDUSTRIAL PROBLEMS. END SUMMARY

1. NEDO IS A TRI-PARTITE ORGANIZATION INCLUDING REPRESENTATIVES OF ORGANIZED LABOR, INDUSTRY AND GOVERNMENT WHOSE ROOTS GO BACK TO 1961. ITS COUNCIL, INEVITABLY DUBBED NEDDY, PROVIDES A FORUM WHERE THE LEADERS OF THESE THREE GROUPS REGULARLY DISCUSS THE SHAPE AND FUTURE OF BRITISH INDUSTRY. NEDDY'S IMPORTANCE HAS EBBED AND FLOWED SINCE ITS UTILITY IS A FUNCTION OF THE DETERMINATION OF ALL SIDES TO CONTRIBUTE. NEDO STAFFERS REPORT THAT IN RECENT YEARS, SUCH DETERMINATION HAS BEEN NOTABLY LACKING, AND NEDDY MEETINGS WERE PERFUNCTORY AT BEST, AND OFTEN COMBATIVE, MARKED BY EXTREME POSITIONS BEING TAKEN BY THE TUC AND INEPT AND INARTICULATE PERFORMANCES FROM CBI REPRESENTATIVES.

2. WITH THIS IN MIND, THE NEDDY COUNCIL MEETING ON NOVEMBER 5, CHAIRED BY THE PRIME MINISTER AT HIS RESIDENCE AT CHEQUERS, TAKES ON ADDED SIGNIFICANCE. THE WORK OF THE MEETING CENTERED ON A PAPER PREPARED JOINTLY BY THE DEPARTMENT OF INDUSTRY AND HM TREASURY ENTITLED "AN APPROACH TO AN INDUSTRIAL STRATEGY" (FULL TEXT BEING POUCHED). IN A FOREWORD, THE CHANCELLOR SPEAKS OF THE NEED TO "REVERSE THE RELATIVE DECLINE OF BRITISH INDUSTRY WHICH HAS BEEN CONTINUOUS FOR MANY YEARS." MR. HEALEY EMPHASIZES THE INDISPENSABILITY OF COOPERATION BETWEEN LABOR AND MANAGEMENT, BOTH IN THE PUBLIC SECTOR AND PRIVATE SECTOR. HEALEY STRESSES THE IMPORTANCE OF SUSTAINING A PRIVATE SECTOR OF INDUSTRY WHICH IS "VIGOROUS, ALERT, RESPONSIBLE AND PROFITABLE," AND SAYS THE PUBLIC

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SECTOR SHOULD EXHIBIT THE SAME QUALITIES.

3. THE PAPER ITSELF CATALOGUES THE PRINCIPAL PROBLEMS FACING BRITISH INDUSTRY. THESE WERE BROKEN DOWN INTO THE AREAS OF INVESTMENT, LABOR, GOVERNMENT AND FINANCE AND CONTAIN A FAMILIAR LIST OF WOES INCLUDING LOW RATES OF INVESTMENT, INEFFICIENT USE OF CAPITAL, LOW PRODUCTIVITY, POOR MANAGEMENT, OVERMANNING, DECLINING PROFITABILITY,

SCARCITY OF MEDIUM AND LONG-TERM CAPITAL. GOVERNMENT WAS
CRITICIZED FOR SHARP POLICY CHANGES WHICH MADE FORWARD
PLANNING DIFFICULT, PREEMPTION OF RESOURCES BY THE PUBLIC
SECTOR TO THE DETRIMENT OF EXPORTS AND INVESTMENT, AND
INTERVENTION IN THE PRICING, EMPLOYMENT AND INVESTMENT
POLICIES OF THE NATIONALIZED INDUSTRIES.

4. THE PAPER SETS OUT ELEMENTS OF
AN INDUSTRIAL STRATEGY WHICH REQUIRES THE ELIMINATION OF
CONFRONTATION AMONG THE MAJOR ECONOMIC SECTORS. IT
WOULD FOSTER A RESTRUCTURING OF BRITAIN'S INDUSTRIAL BASE
SO THAT PROFITS COULD RESUME THEIR ROLE AS INCENTIVES
FOR FUTURE INVESTMENT AND INNOVATION. TO THAT END "THE
GOVERNMENT INTENDS TO GIVE GREATER WEIGHT TO THE NEED

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FM AMEMBASSY LONDON

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INFO AMEMBASSY BERN

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FOR INCREASING THE NATIONAL RATE OF GROWTH...." FOR THE IMMEDIATE FUTURE THIS MEANS "GIVING PRIORITY TO INDUSTRIAL DEVELOPMENT OVER CONSUMPTION OR EVEN OUR SOCIAL OBJECTIVES."

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5. TO BEGIN THIS PROCESS, THE PAPER PROPOSES THE CREATION OF A MEDIUM-TERM INDUSTRIAL FRAMEWORK. THIS WOULD REQUIRE A SYSTEMATIC STATISTICAL AND ANALYTICAL INSTRUMENT CONSISTING OF A DATA BASE FOR EACH SECTOR AND A MODEL FOR DEVELOPING THE IMPLICATIONS OF ALTERNATIVE MEDIUM-TERM GROWTH ASSUMPTIONS. USING THIS FRAMEWORK THE GOVERNMENT WILL IDENTIFY "THOSE SECTORS MOST IMPORTANT FOR ACHIEVING OUR ECONOMIC OBJECTIVES BOTH FOR THE GOVERNMENT'S PURPOSES AND FOR THOSE OF PRIVATE INDUSTRY." THE MOST IMPORTANT INDUSTRIES WILL THEN BE GROUPED AS THOSE

- INTRINSICALLY LIKELY TO BE SUCCESSFUL,
- WHICH HAVE THE POTENTIAL FOR SUCCESS IF APPROPRIATE ACTION IS TAKEN,
- WHOSE PERFORMANCE IS IMPORTANT TO THE REST OF THE ECONOMY, AS IN THE CASE OF COMPONENT SUPPLIERS.

6. IN ADDITION, THE NEW STRATEGY INVOLVES GOVERNMENT ASSURANCES TO INDUSTRY "THAT IT ACCEPTS AS A MAJOR OBJECTIVE OF ECONOMIC POLICY THE ABILITY OF INDUSTRY TO EARN A REASONABLE RATE OF RETURN ON CAPITAL."

7. THE PLANNING AGREEMENTS SYSTEM (SUBJECT OF A SEPARATE AIRGRAM) AND THE NATIONAL ENTERPRISE BOARD WILL BE THE PRINCIPAL GOVERNMENT AGENTS FOR IMPLEMENTING THE STRATEGY. THE PAPER ENVISAGES A PROCESS BEGINNING IN THE LATE SUMMER OF EACH YEAR. THE NEDO COUNCIL WOULD RECEIVE

- THE MAIN COMPONENTS OF THE GOVERNMENT'S MEDIUM-TERM PROJECTIONS,
- A PAPER CLASSIFYING SECTORS ALONG THE LINES OF PARA. 5 ABOVE,
- DISAGGREGATED DATA IDENTIFYING STRONG AND WEAK

POINTS IN EACH SECTOR.

ALL THIS MATERIAL WOULD BE DISCUSSED WITH WORKING GROUPS REPRESENTING THE UNIONS (TUC), INDUSTRY (CBI), THE GOVERNMENT AND NEDO. THESE WOULD REPORT BACK TO THE COUNCIL BY THE END OF THE YEAR.

8. THE PAPER CONCLUDES WITH THE STATEMENT THAT THE GOVERNMENT HOPES TO PRODUCE THE STATISTICAL FRAMEWORK BY EARLY 1976 SO THAT WORK CAN GO FORWARD ON A PILOT BASIS AND A FULL-BLOWN SYSTEM CAN BE IN OPERATION AS QUICKLY AS LIMITED OFFICIAL USE

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FEASIBLE.

9. PREDICTABLY, MEMBERS OF THE LABOUR PARTY LEFT WING, LED BY JUDITH HART AND ERIC HEFFER, REACTED SHARPLY AGAINST THE GOVERNMENT'S POSITION. THE TRIBUNE GROUP CHARACTERIZED THE PAPER AS "AN OPEN REPUDIATION" OF THE PARTY'S INDUSTRIAL POLICY RECENTLY CONFIRMED AT THE LABOUR PARTY CONFERENCE (REFAIR). THIS APART, REACTION TO THE CHEQUERS MEETING HAS BEEN CAUTIOUSLY HOPEFUL. THE GOVERNMENT'S ADMISSION THAT PROFITS AND ADEQUATE RETURN ON INVESTMENT ARE ESSENTIAL CAUSED THE CONFEDERATION OF BRITISH INDUSTRY TO SPEAK OF THE CORNER HAVING BEEN TURNED BETWEEN THE GOVERNMENT AND INDUSTRY. THE TUC REACTION WAS MOPE SUBDUED. THEY SUPPORTED THE PAPER'S EMPHASIS ON THE NEED FOR AN AGREED STRATEGY WHICH WAS AIMED AT THE IMPROVEMENT OF INDUSTRIAL PERFORMANCE. HOWEVER, THE TUC REPRESENTATIVES AT THE NEDO

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INFO AMEMBASSY BERN
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MEETING WARNED THAT THE LEVEL OF UNEMPLOVMENT WOULD BE A
MAJOR DETERMINANT IN THEIR SUPPORT OF A NEW INDUSTRIAL
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STRATEGY.

10. COMMENT: THE GOVERNMENT'S STRATEGY, WHILE NOT EXPLICITLY SAYING SO, SEEMS TO ACCEPT THE IDEA THAT SCARCE RESOURCES SHOULD BE CHANNELLED INTO THOSE SECTORS WHOSE COMPETITIVE POSITION IS MOST SECURE. LESS VIABLE INDUSTRIES WOULD BE LEFT TO THEIR OWN DEVICES. THE GOVERNMENT CANNOT PUBLICLY IDENTIFY THESE LAME DUCKS WITHOUT RISK OF ACCELERATING THEIR DECLINE WITH ALL THE ATTENDANT SOCIAL, ECONOMIC AND POLITICAL CONSEQUENCES.

11. THE NEDO COUNCIL MEETING SEEMED TO HAVE A CERTAIN LIFE BOAT ATMOSPHERE TO IT. AFTER YEARS OF HOSTILITY AND CONFRONTATION ALL SIDES SEEMED TO BE AGREED THAT COOPERATION WAS THE ONLY VIABLE ALTERNATIVE. COMPROMISE WAS THE

ORDER OF THE DAY. THE GOVERNMENT ADMITTED THAT PROFITS WERE THE KEY TO HIGHER INVESTMENT, THE TUC SEEMED WILLING TO DISCUSS OVERMANNING AND RESTRICTIVE LABOR PRACTICES, AND INDUSTRY SEEMED READY TO ACCEPT A CLOSER WORKING RELATIONSHIP WITH GOVERNMENT. WHETHER THIS NEW SPIRIT OF ECONOMIC DETENTE, BORN OF ADVERSITY, WILL SURVIVE LONG ENOUGH TO ENALE BRITISH INDUSTRY TO UNDO A GENERATION OF DECLINE IS DEBATABLE.

12. THE PROGRAM ITSELF IS A LONG TERM ONE. HOWEVER, IT REMAINS TO BE SEEN WHETHER THE GOVERNMENT CAN MUSTER THE CONTINUING POLITICAL WILL NECESSARY TO SUPPORT ITS VIEW THAT PROFITS AND ADEQUATE RETURN ON CAPITAL ARE ESSENTIAL FOR INDUSTRIAL SUCCESS. SKEPTICISM ABOUT THIS QUESTION WILL PERSIST UNTIL THE GOVERNMENT TAKES SPECIFIC ACTIONS SUCH AS LIBERALIZING OR ELIMINATING PRICE CONTROLS IN ORDER TO PERMIT HIGH PROFITS AND ALLOWING NATIONALIZED INDUSTRIES TO OPERATE ON A COMMERCIAL BASIS.

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Message Attributes

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